



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
PHONE: (213) 974-8301 FAX: (213) 626-5427

June 22, 2016

TO: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: John Naimo  
Auditor-Controller

A handwritten signature in blue ink, reading "John Naimo", is written over the printed name and title.

SUBJECT: **COUNTYWIDE UTILITY USER TAX EXPENDITURE AUDIT REPORT  
AS OF JUNE 30, 2015**

Los Angeles County Code Chapter 4.62.240 (Code) authorizes the County to collect a Utility User Tax (UUT) on communication services from residents in unincorporated areas of the County. The Code requires the County to have an annual audit to verify that the taxes have been properly collected and spent. We contracted with an independent Certified Public Accounting firm, BCA Watson Rice, LLP (BCA), to audit how the UUT funds were spent. Attached is BCA's audit of the County's Schedule of UUT Countywide Expenditures (Schedule) for the Fiscal Year 2014-15.

BCA issued an unqualified opinion on the Schedule, indicating that the Schedule presents the UUT expenditures fairly, in conformity with accounting principles generally accepted in the United States of America. BCA did not examine the collection of the UUT, which will be audited separately.

As part of the audit, BCA reviewed the County's internal controls over financial reporting, and identified no material weaknesses. BCA also examined the County's compliance with certain laws and regulations pertaining to UUT and the County's adopted budget, and did not identify any instances of noncompliance.

Board of Supervisors  
June 22, 2016  
Page 2

If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:JU

Attachment

c: Sachi A. Hamai, Chief Executive Officer  
Lori Glasgow, Executive Officer, Board of Supervisors  
Public Information Office  
Audit Committee

## **COUNTY OF LOS ANGELES**

---

### **Schedule of Utility User Tax Countywide Expenditures With Independent Auditor's Report**

For the Year Ended June 30, 2015



21250 Hawthorne Blvd., Suite 150 Torrance, CA 90503  
t: (310) 792-4640 f: (310) 792-4140

**COUNTY OF LOS ANGELES**  
**Schedule of Utility User Tax Countywide Expenditures**  
**For the Year Ended June 30, 2015**

**Table of Contents**

	<u>Page</u>
Independent Auditor's Report.....	1
Schedule of UUT Countywide Expenditures .....	3
Notes to Schedule of UUT Countywide Expenditures.....	4
Independent Auditor's Report on Compliance with Requirements Applicable to Utility User Tax Expenditures in Accordance with the Measure U .....	7
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	9
Schedule of Audit Findings and Questioned Costs .....	11
Status of Prior Year Audit Findings and Questioned Costs .....	12



21250 Hawthorne Blvd Suite 150  
Torrance, CA 90503  
www.bcawatsonrice.com

Telephone: 310.792.4640  
Facsimile: 310.792.4331

## INDEPENDENT AUDITOR'S REPORT

John Naimo  
Auditor-Controller  
County of Los Angeles  
Los Angeles, California

### **Report on the Schedule of Utility User Tax Countywide Expenditures**

We have audited the accompanying Schedule of Utility User Tax (UUT) Countywide Expenditures (Schedule) of the County of Los Angeles (County) for the year ended June 30, 2015, and the related notes to the Schedule, as listed in the table of contents.

### ***Management's Responsibility for the Schedule***

The County's management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the Schedule referred to above present fairly, in all material respects, the Utility User Tax Countywide Expenditures of the County, for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the Schedule, the accompanying Schedule is intended to present only the Utility User Tax Countywide Expenditures. They do not purport to, and do not, present fairly the financial position of the County of Los Angeles as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2016 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

*BCA Watson Rice, LLP*

Torrance, CA  
April 19, 2016

**COUNTY OF LOS ANGELES  
Schedule of Utility User Tax (UUT) Countywide Expenditures  
For the Year Ended June 30, 2015**

	Certified UUT Expenses	Audit Adjustments	Audited UUT Expenses
<b>Arts Commission</b>			
Services and supplies	\$ 280,000	\$ -	\$ 280,000
<b>Auditor Controller</b>			
Services and supplies	103,588	-	103,588
<b>Board of Supervisors</b>			
Services and supplies	1,671,694	-	1,671,694
<b>Chief Executive Office (CEO)</b>			
Salaries and employee benefits	17,334	-	17,334
<b>CEO Capital Projects</b>			
Capital assets	509,346	-	509,346
<b>CEO Nondepartmental Special Accounts</b>			
Services and supplies	-	-	-
<b>CEO Office of Emergency Management</b>			
Services and supplies	-	-	-
<b>CEO Project and Facility Development</b>			
Services and supplies	100,000	-	100,000
<b>CEO Provisional Financing Uses</b>			
Services and supplies	-	-	-
<b>Community and Senior Services</b>			
Salaries and employee benefits	210,000	-	210,000
Services and supplies	28,968	-	28,968
Subtotal	238,968	-	238,968
<b>District Attorney</b>			
Salaries and employee benefits	1,408,000	-	1,408,000
<b>Fire</b>			
Services and supplies	82,000	-	82,000
<b>Parks and Recreation</b>			
Salaries and employee benefits	11,299,300	-	11,299,300
Services and supplies	4,282,522	-	4,282,522
Capital assets	13,000	-	13,000
Subtotal	15,594,822	-	15,594,822
<b>Public Library</b>			
Salaries and employee benefits	6,537,000	-	6,537,000
Services and supplies	5,270,497	-	5,270,497
Subtotal	11,807,497	-	11,807,497
<b>Public Works</b>			
Services and supplies	365,000	-	365,000
<b>Sheriff</b>			
Salaries and employee benefits	10,677,378	-	10,677,378
<b>Sheriff - County Services</b>			
Salaries and employee benefits	1,233,570	-	1,233,570
Services and supplies	106,000	-	106,000
Subtotal	1,339,570	-	1,339,570
<b>Treasurer and Tax Collector</b>			
Salaries and employee benefits	114,130	-	114,130
<b>Total UUT Expenses<sup>1</sup></b>	<b>\$ 44,309,327</b>	<b>\$ -</b>	<b>\$ 44,309,327</b>

See Accompanying Notes to the Schedule of Utility User Tax (UUT) Countywide Expenditures

<sup>1</sup> See Note 4 of accompanying Notes to the Schedule of UUT Countywide Expenditures.

**COUNTY OF LOS ANGELES**  
**Notes to the Schedule of Utility User Tax (UUT) Countywide Expenditures**  
**June 30, 2015**

**NOTE 1 – Organization**

**General**

The County of Los Angeles is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected Board of Supervisors (Board) which, as the governing body of the County, is responsible for the legislative and executive control of the County.

**Utility User Tax**

Utility User Tax (UUT) is a general tax which is used to provide essential government services. The Los Angeles County Code (Code), Title 4 Revenue and Finance, Chapter 4.62, governs the UUT. The Code provides that utility companies are to collect UUT from service users and remit these monies to the County Treasurer and Tax Collector. A service user is a person that is required to pay based on the consumption of electricity, gas, telephone, cable television services and other communication services. The tax is imposed at a rate of 4.5% and collected by the utility companies or their billing agent. Tax collected by the utility companies is remitted to the County Treasurer and Tax Collector on a monthly basis.

Through the County budget process, the Board approves appropriation authority allowing selected departments to expend their UUT allocations to enhance unincorporated area services. There are a total of eighteen budget units (twelve departments) that utilize UUT funds. The twelve budget departments are as follows: Arts Commission, Auditor-Controller, Board of Supervisors, Chief Executive Office, Community and Senior Services, District Attorney, Fire, Parks and Recreation, Public Library, Public Works, Sheriff and Treasurer and Tax Collector. In addition, the Chief Executive Office administers UUT funding in Capital Projects, Nondepartmental Special Accounts, Office of Emergency Management, Project and Facility Development, and Provisional Financing Uses budget units.

**NOTE 2 – Summary of Significant Accounting Policies**

The Schedule has been prepared in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments. The more significant of the County's accounting policies with regard to the UUT are described below.

***Basis of Accounting***

The modified accrual basis of accounting is used for the UUT expenditures. Under the modified accrual basis of accounting, expenditures are generally recorded when a liability is incurred, as under accrual accounting.



**COUNTY OF LOS ANGELES**  
**Notes to the Schedule of Utility User Tax (UUT) Countywide Expenditures**  
**June 30, 2015**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Budgetary Accounting***

The established legislation and adopted policies and procedures provide that the County's Board approves an annual budget. Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for all governmental funds.

The County budget is organized by budget unit and expenditure object. Budget units are established at the discretion of the Board. Each individual fund constitutes a budget unit. Expenditures are controlled on the object level for all budget units within the County. The County prepares a separate budgetary document, the County Budget, which demonstrates legal compliance with budgetary control.

***Use of Estimates***

The preparation of the Schedule in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – Activities Excluded from the Schedule**

This report only reflects UUT expenditures within various departments of the County. Other activities of the County are not included in this report.

**NOTE 4 – Expenditures**

Total audited certified UUT expenditures for the year ended June 30, 2015 was \$44,309,327. In addition to these UUT expenditures, there were additional expenditures for the enhancement of unincorporated area services that were funded by the General Fund Balance. The total value of such services provided by both the UUT and the General Fund Balance during fiscal year 2015 was \$54,713,706, as shown below:

	Utility User Tax	\$ 44,309,327
	General Fund Balance	<u>10,404,379</u>
Total expenditures for enhancement of unincorporated area services		<u>\$ 54,713,706</u>

**NOTE 5 – Subsequent Events**

In preparing the Schedule, the County has evaluated events and transactions for potential recognition or disclosure through April 19, 2016, the date the Schedule of UUT Countywide Expenditures was issued.

**COUNTY OF LOS ANGELES  
Notes to the Schedule of Utility User Tax (UUT) Countywide Expenditures  
June 30, 2015**

**NOTE 6 – Contingencies**

**Willy Granados v. County of Los Angeles** - This case includes a claim to recover Utility User Tax (UUT) to the extent that it was applied to telecommunications services that are no longer subject to the federal excise tax. The estimated liability could amount to \$5,000,000.

**Jose Oronoz v. County of Los Angeles** - This case included a class action lawsuit challenging the validity of the UUT ordinance. Board agreed to settle the case and the court approved the settlement. As of June 30, 2015, the estimated liability is \$18,700,000 earmarked for specific projects approved by the court.



21250 Hawthorne Blvd. Suite 150  
Torrance, CA 90503  
www.bcawatsonrice.com

Telephone: 310.792.4640  
Facsimile: 310.792.4331

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO THE UTILITY USER TAX EXPENDITURES IN  
ACCORDANCE WITH THE *MEASURE U***

John Naimo  
Auditor-Controller  
County of Los Angeles  
Los Angeles, California

**Report on Compliance**

We have audited the County of Los Angeles (County) compliance of the Utility User Tax (UUT) Countywide Expenditures with the types of compliance requirements described in the *Measure U* and the *County's Adopted Budget* for the year ended June 30, 2015.

***Management's Responsibility***

County's management is responsible for compliance with the requirements of laws and regulations applicable to UUT expenditures.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the County's compliance with UUT expenditures based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on UUT expenditures occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances.

We believe that our audit provides a reasonable basis for our opinion on UUT expenditures. However, our audit does not provide a legal determination of the County's compliance.

***Opinion on UUT Expenditures***

In our opinion, the County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on the UUT expenditures for the year ended June 30, 2015.

### Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of compliance requirements that could have a direct and material effect on UUT expenditures as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the *Measure U* and the *County's Adopted Budget*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the UUT expenditures that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the management of the County, the Board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
April 19, 2016



21250 Hawthorne Blvd. Suite 150  
Torrance, CA 90503  
www.bcawatsonrice.com

Telephone: 310.792.4640  
Facsimile: 310.792.4331

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

John Naimo  
Auditor-Controller  
County of Los Angeles  
Los Angeles, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Utility User Tax Countywide Expenditures (Schedule) of the County of Los Angeles (County) for the year ended June 30, 2015, and the related notes to the Schedule, which collectively comprised the County's basic Schedule, and have issued our report thereon dated April 19, 2016.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Schedule will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the County's Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

**Restriction on Use**

This report is intended for the use of the management of the County, the County Board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

  
Torrance, California  
April 19, 2016

**COUNTY OF LOS ANGELES  
Schedule of Utility User Tax Countywide Expenditures  
For the Year Ended June 30, 2015**

**Schedule of Audit Findings and Questioned Costs**

No findings noted for fiscal year ended June 30, 2015.

**COUNTY OF LOS ANGELES  
Schedule of Utility User Tax Countywide Expenditures  
For the Year Ended June 30, 2015**

**Status of Prior Year Audit Findings and Questioned Costs**

There were no prior year findings reported.